

Taixing Port Group Co., Ltd.

Initial Issuer Report

Summary

| | |
|---------------|--|
| Issuer Rating | BBB- |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 1 March 2023 |

Key Figures of Taixing and TPG

| (RMB billion) | 2020 | 2021 |
|-----------------------|-------|-------|
| Taixing | | |
| GDP | 112.7 | 127.3 |
| GDP growth rate (%) | 3.9 | 9.9 |
| Budgetary revenue | 8.5 | 9.3 |
| Government fund | 12.6 | 13.9 |
| Transfer payment | 4.1 | 2.9 |
| Budgetary expenditure | 10.8 | 11.8 |
| TPG | | |
| Assets | 14.8 | 37.3 |
| Equity | 9.0 | 20.9 |
| Revenue | 2.7 | 2.9 |

Source: Public information, TPG and Lianhe Global's calculations

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Taixing Port Group Co., Ltd. ("TPG" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Taixing City ("Taixing government") would provide strong support to TPG if needed, in light of its full ownership of TPG, TPG's strategic importance as an important local investment and development company ("LIDC") for port infrastructure construction and municipal public utilities operation in Taixing, and the linkage between the Taixing government and TPG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and other government support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TPG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that TPG's strategic importance would remain intact while the Taixing government will continue to ensure TPG's stable operation.

Rating Rationale

Government's Ownership and Supervision: TPG was established in June 2017. At end-September 2022, the Taixing government via the State-owned Assets Supervision and Administration Office of Taixing ("Taixing SASAO") holds 100% stake of TPG, and it is the sole shareholder and actual controller of the company. The Taixing government has strong supervision over TPG, including appointment and supervision of the senior management, development strategy alignment, major investment and financing plan decisions and daily operations. In addition, the Taixing government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Strategic Importance and Strategic Alignment: TPG is an important LIDC that is mainly responsible for infrastructure investment, development and construction in Taixing. It mainly undertakes Taixing's port infrastructure and major municipal projects construction. Taixing government has assigned TPG to take the responsibility for the construction of municipal projects such as the exhibition center, the enterprise office center, the economic and commercial center, the oil product trading center, the petrochemical trading center, and the bonded warehousing center, etc. Meanwhile, the company is also responsible for grain reserve and trade in Taixing, Tianxingzhou Project development, sand and stone management and other aspects of construction and operation. The company's development strategy is aligned with the development plan of the local government, aiming to integrate and develop the port industry along the Yangtze River and then extend other related industries in Taixing.

Ongoing Government Support: The company has received support from local government in the form of asset allocation and government subsidies. In recent years, TPG and its subsidiaries have received large amounts of assets allocated by the Taixing government, and some related projects have received support from the local government. In 2021, the registered capital of TPG increases to RMB5 billion. In terms of government subsidies, the

Analysts

Ben Yau
 +852 3462 9586
ben.yau@lhratingsglobal.com

Toni Ho
 +852 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

amount of government subsidies received by the company from 2019 to 2021 and in the first nine months of 2022 was approximately RMB168 million, RMB223 million, RMB518 million and RMB340 million, respectively. Given the company's role, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

TPG's Financial and Liquidity Position: The total assets of TPG increased rapidly from c. RMB6.7 billion at end-2019 to RMB37.3 billion at end-2021, with a compound annual growth rate of 135.2%, mainly due to assets injection and equity transfer received in 2020 and 2021. At end-September 2022, the company's total assets have further increased to RMB41 billion and its financial leverage (total liabilities/total assets) was 48.49%. The company's outstanding debt grew rapidly as well. At end-September 2022, the total adjusted debt of the company was c. RMB15.94 billion, of which short-term and long-term debt accounted for 30.4% and 69.6% of its total debt, respectively. The asset structure of TPG was mainly non-current assets (i.e., long-term equity investments and intangible assets) and the asset liquidity of the company was weak. At end-September 2022, TPG had a cash balance of c. RMB3.18 billion (among which the restricted cash was RMB1.42 billion) and unused credit facilities of c. RMB2.86 billion, compared with its debt due within one year of c. RMB4.85 billion. TPG has access to limited financing channels, mainly includes bank loans and non-traditional financing (such as trust loan, financial lease and factoring).

Economy and Fiscal Condition of Taixing: Taixing is a county-level city in Jiangsu Province, which is an important economic link between the north and south of the Yangtze River. Taixing maintained growth in economic development in 2021, achieving a GDP of c. RMB127.3 billion, with a year-on-year growth of 9.9%. The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. In 2021, the budgetary revenue of the Taixing government reached c. RMB9.3 billion, with a year-on-year increase of 9.0%, of which tax revenue accounted for 80.7% of its budgetary revenue. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2021, the government fund income of the Taixing government was c. RMB13.9 billion, up 10.7% year-on-year. Taixing government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high. At end-2021, the local government's outstanding debt was c. RMB27.5 billion, including RMB10.4 billion of general obligations and RMB17.1 billion of special debt.

Rating Sensitivities

We would consider downgrading TPG's rating if (1) there is perceived weakening in support from the Taixing government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Taixing government's ownership of TPG, or (3) there is a downgrade in our internal credit assessment on the Taixing government.

We would consider upgrading TPG's rating if (1) there is strengthened support from the Taixing government, or (2) there is an upgrade in our internal credit assessment on the Taixing government.

Operating Environment

Economic Condition of Taixing

Taixing is a county-level city under the jurisdiction of Taizhou City, Jiangsu Province. Taixing is located in the middle of Jiangsu Province and in the Yangtze River Economic Belt, which is an important economic link between the north and south of the Yangtze River. It enjoys good economic development and has been ranked among the top 100 counties in China for years (2022: Ranked 28th). At end-2021, Taixing has jurisdiction over 3 streets, 13 towns and 1 township, with a total area of 1,172 square kilometers, and the residential population of Taixing was c. 1.0 million, with an urbanization rate of 62.9% in 2021. Taixing maintained growth in economic development, achieving a GDP of c. RMB127.3 billion, with a year-on-year growth of 9.9% in 2021. In terms of industrial structure, Taixing's economy was mainly dominated by the secondary industry and the tertiary industry, of which the tertiary industry accounted for an increasing proportion year by year. The GDP per capita of Taixing reached c. RMB128,000 in 2021, compared with that of c. RMB137,000 in Jiangsu Province at the same time.

| Taixing's GDP and Fixed Asset Investment | | | |
|---|-------------|-------------|-------------|
| (RMB billion) | 2019 | 2020 | 2021 |
| GDP | 108.4 | 112.7 | 127.3 |
| -Primary industry (%) | 6.0 | 6.2 | 5.6 |
| -Secondary industry (%) | 51.3 | 50.1 | 50.3 |
| -Tertiary industry (%) | 42.7 | 43.7 | 44.1 |
| GDP growth rate (%) | 6.8 | 3.9 | 9.9 |
| Fixed asset investment | 100.8 | 95.6 | 102.4 |
| Fixed asset investment growth rate (%) | 10.9 | -5.2 | 7.1 |
| Population (million) | 1.1 | 1.0 | 1.0 |

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Taixing

The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Taixing government maintained growth in the past three years, reaching c. RMB9.3 billion with a year-on-year increase of 9.0% in 2021, of which tax revenue accounted for 80.7% of its budgetary revenue. The fiscal self-sufficiency rate of the Taixing government was relatively high at about 75%-80% for the past three years, but it still insufficient that led it continued to receive a certain number of subsidies from higher government authorities. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2021, the government fund income of the Taixing government kept growing, reaching c. RMB13.9 billion, up 10.7% year-on-year.

The outstanding debt of the Taixing government continuously increased in the past three years, and the debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high. At end-2021, the local government's outstanding debt was c. RMB27.5 billion, including RMB10.4 billion of general obligations and RMB17.1 billion of special debt.

| Taixing's Fiscal Condition | | | |
|--------------------------------------|-------------|-------------|-------------|
| (RMB billion) | 2019 | 2020 | 2021 |
| Budgetary revenue | 8.1 | 8.5 | 9.3 |
| Budgetary revenue growth rate (%) | 8.2 | 6.0 | 9.0 |
| Tax revenue | 6.6 | 6.7 | 7.5 |
| Tax revenue (% of budgetary revenue) | 82.2 | 78.7 | 80.7 |
| Government fund income | 9.3 | 12.6 | 13.9 |
| Transfer payment | 3.3 | 4.1 | 2.9 |
| Aggregate revenue | 20.6 | 25.2 | 26.2 |
| Budgetary expenditure | 10.6 | 10.8 | 11.8 |
| Budget deficit ¹ (%) | -32.1 | -26.8 | -27.1 |

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TPG was established with an initial registered capital of RMB1,426 million in June 2017. In January 2021, the Taixing SASAO becomes the sole shareholder holding 100% equity of the company. In September 2021, the registered capital of the company increases to RMB5 billion, which will be injected by the Taixing SASAO in the form of cash. At end-September 2022, the paid-in capital of the company was RMB1,426 million and the Taixing SASAO was the controlling shareholder and actual controller of the company.

Strategic Importance and Government Linkage

Strategic Importance of TPG to Taixing

TPG is an important LIDC that is mainly responsible for port infrastructure investment, development and construction in Taixing. The company mainly undertakes Taixing's port infrastructure and major municipal projects construction. Taixing government has assigned TPG to take the responsibility for the construction of municipal projects such as the exhibition center, the enterprise office center, the economic and commercial center, the oil product trading center, the petrochemical trading center, and the bonded warehousing center, etc. Meanwhile, the company is also responsible for grain reserve and trade in Taixing, Tianxingzhou Project development, sand and stone management and other aspects of construction and operation. The company's development strategy is aligned with the development plan of the local government, aiming to integrate and develop the port industry along the Yangtze River and then extend other related industries in Taixing.

Strong Linkage with the Local Government

TPG has a strong linkage with the local government, as the Taixing government via the Taixing SASAO holds 100% ownership of the company. The Taixing government has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major investment and financing plan decisions and other government support, etc. In addition, the Taixing government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Ongoing Government Support

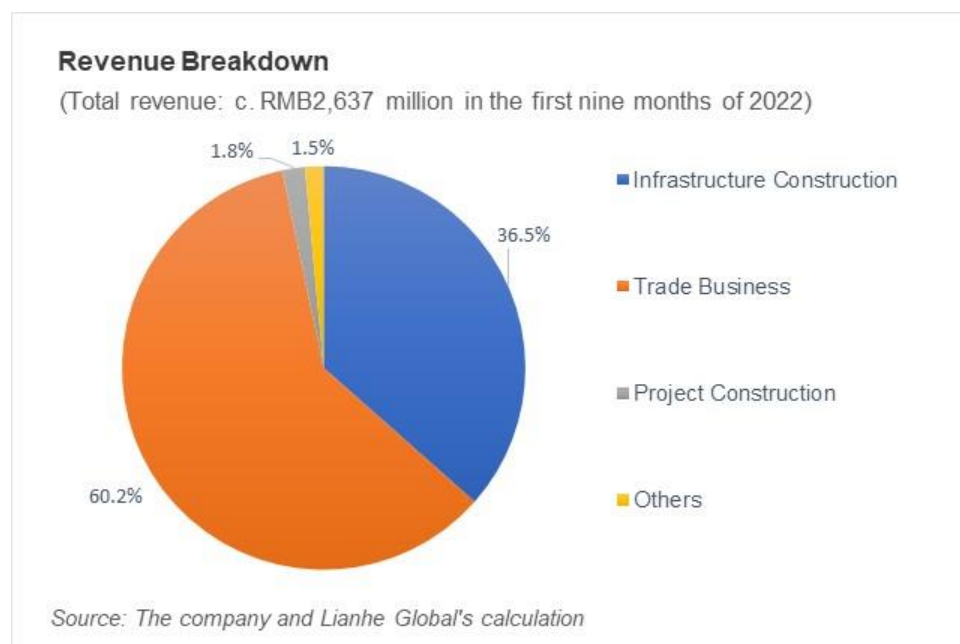
As an important LIDC for port infrastructure construction and municipal public utilities operation in Taixing, the company has received support in asset allocation and government subsidies. In recent years, TPG and its subsidiaries have received large amounts of assets allocated (such as equity, franchise right and terminal assets) by the Taixing government, and some related projects have received support from the local government. In 2021, the registered capital of TPG increases to RMB5 billion, which will be injection by the Taixing SASAO in the form of cash. In terms of government subsidies, the amount of government subsidies received by the company from 2019 to 2021 and in the first nine months of 2022 was approximately RMB168 million, RMB223 million, RMB518 million and RMB340 million, respectively. Given the company's role, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

Business Profile

The Important LIDC Responsible for Port Infrastructure Construction in Taixing

The company is an important LIDC that is mainly responsible for infrastructure investment, development and construction in the Economic Development Zone of Taixing. It mainly undertakes Taixing's port infrastructure and major municipal projects construction such as exhibition center, oil product trading center and the bonded warehousing center, etc. Meanwhile, the company is also responsible for grain trade in Taixing, Tianxingzhou Project development, sand and stone management and other aspects of construction and operation. As the main entity of the development of Taixing along the Yangtze River, the company takes the port industry as the core and extends other relevant industrial chain around the port industry.

In recent years, the company's operating revenue has been growing year by year. The operating revenue from 2019 to 2021 and in the first nine months of 2022 was RMB1.54 billion, RMB2.71 billion, RMB2.87 billion and RMB2.64 billion, respectively. In 2020, the rapid growth of the company's revenue was mainly due to the completion and settlement of the Tianxingzhou Project and the allocation of equity such as Jinjiang Investment. From the perspective of revenue structure, infrastructure construction and commodity sales were the main sources of the company's revenue. The gross margin of the company was low due to the lower gross profit margin on commodity sales business, which was 5.6%, 9.9% and 9.4% for the past three years and 7.6% for the first three quarters of 2022, respectively. The increase in gross margin of the infrastructure construction business was mainly due to lower costs as a result of lower tax rate on newly undertaken projects. The gross profit margin of other businesses fluctuated greatly, mainly due to the impact of the epidemic and the fluctuation of labor costs in the past few years.



Infrastructure Construction

The company mainly undertakes the tasks of port infrastructure construction and large-scale supporting facilities construction in Taixing. The company signs agent construction agreements with the entrusting party (mainly other local state-owned companies), and the company is responsible for the construction of infrastructure projects along the Yangtze River port in Taixing and the Economic Development Zone of Taixing. The company is responsible for the investment, financing and construction management of the project, after the project is completed and reviewed, the company will hand over the project to the entrusting party, who will take 25% of the actual cost as the investment return of the project, which can be adjusted according to the actual construction situation of the year. Currently, the company has several projects under construction, and there are capital expenditure needs in the future.

Commodity Trading

The main sells products of commodity sales business are ethylene glycol, heat and grain. It adopts business model of the purchase by sale or cash spot. In December 2020, the company merged Jinjiang Investment and the chemical trade income accounted for a relatively high proportion. The income from heat trade accounted for a relatively small proportion that mainly sold to enterprises in the region.

In May 2021, the newly subsidiary, Taixing Grain Group Co., Ltd. ("Grain Group"), of the company became the sole entity of grain purchase and sale in Taixing, with a certain regional franchise. The Taixing government allocated 23 state-owned grain purchasing and marketing enterprises to Grain Group free of charge, and Grain Group is mainly focuses on grain reserve, grain processing and grain processing projects and investment.

Project Construction and Other Businesses

Project construction business mainly undertake external implementation of construction projects. The business model is mainly to independently undertake and sign project contracts through bidding, and the income and cost are usually recognized according to the

progress of project schedule. The project undertaking method of the company is general contract of construction, and the business is mainly concentrated in Taixing.

The income generated from other businesses mainly include port loading and unloading income, tug income, software development and technical service income and shipping agency service income. The company's other business income increases year by year, to form a certain complement to the company's operating income.

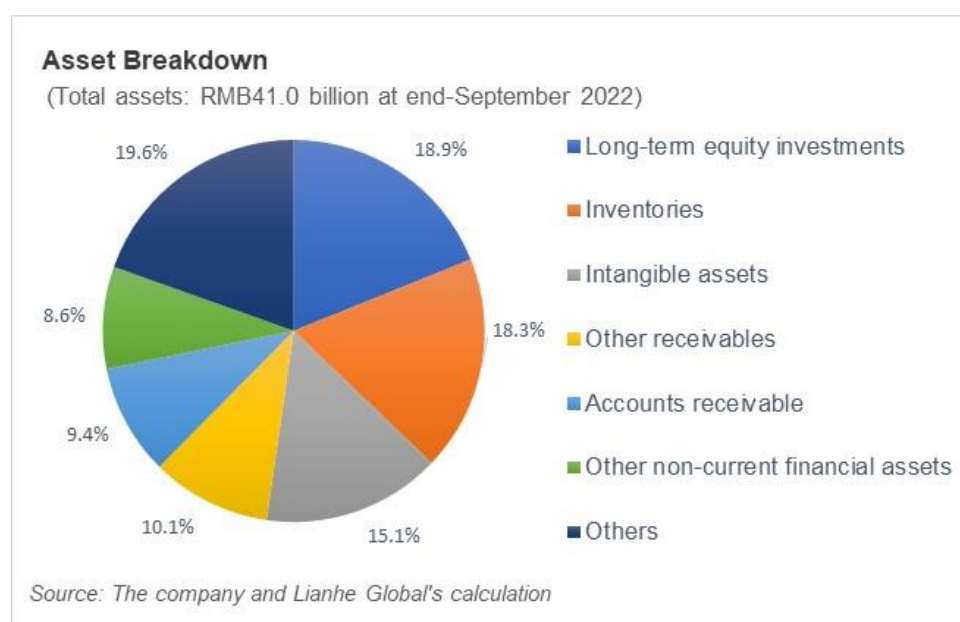
Financial Profile

Balance Sheet Structure and Quality

| Balance Sheet Structure and Quality | | | | |
|-------------------------------------|-------|--------|--------|-----------|
| (RMB million) | 2019 | 2020 | 2021 | Sept 2022 |
| Total Asset | 6,744 | 14,804 | 37,304 | 41,017 |
| Equity | 4,657 | 8,966 | 20,939 | 21,127 |
| Debt | 1,224 | 2,997 | 10,108 | 15,939 |
| Debt / (Debt + Equity) (%) | 20.8 | 25.1 | 32.6 | 43.0 |
| LT Debt | 752 | 1,759 | 7,865 | 11,091 |
| LT Debt / (LT Debt + Equity) (%) | 13.9 | 16.4 | 27.3 | 34.4 |

Source: The company's financial reports and Lianhe Global's calculations

TPG's financial leverage (total liabilities/total assets) increased year by year, from 30.95% to 39.43% and 43.87% at the end of 2019-2021, respectively, and increased to 48.49% at end-September 2022. The company primarily relies on external financing to support its capital expenditures and debt repayment. At end-September 2022, the company's liabilities were mainly consisted of long-term payables, long-term and short-term borrowings and other payables. Long-term payables were mainly finance lease loans and other borrowings payable, accounting for 38.7% of its total liabilities. The company's outstanding debt was growing rapidly. At end-September 2022, the total adjusted debt of the company was c. RMB15.94 billion, of which short-term and long-term debt accounted for 30.4% and 69.6% of its total debt, respectively. In recent years, with the introduction of a large number of assets (such as equity and dock assets, etc.), the equity of the company has continued to grow and its capital strength has been enhanced.



The total assets of TPG increased rapidly from c. RMB6.7 billion at end-2019 to RMB37.3 billion at end-2021, with a compound annual growth rate of 135.2%, mainly due to assets injection and equity transfer received in 2020 and 2021. At end- September 2022, the company's assets have further increased to RMB41 billion, and it mainly comprised of long-term equity investments, inventories, intangible assets and other receivables. Long-term equity investment was mainly the amount invested in Taixing Runjia Holding Co., Ltd. (a local state-owned company), accounting for 99.2% of its long-term equity investment. There was investment risk due to the large scale of total investment. The company's inventories mainly included contract performance costs related to infrastructure construction projects, accounting for about 94.5% of its inventory. Intangible assets included land use right, software and franchise right, among which franchise right accounted for the largest proportion, c. 99.3%, mainly the right of underground sand and stone resources in Taixing Economic Development Zone. Other receivables mainly include transactions with Taixing government departments and other state-owned enterprises. The asset structure of TPG was mainly non-current assets, and the inventories and other receivables in current assets accounted for a large proportion, so the overall asset liquidity of the company was weak.

Cash Flow

| Cash Flow (RMB million) | 2019 | 2020 | 2021 | 9M2022 |
|--|-------------|---------------|---------------|---------------|
| Cash Inflows from Operation | 1,753 | 2,920 | 6,361 | 4,383 |
| Cash Outflows from Operation | 2,071 | 2,660 | 6,239 | 4,174 |
| Net CF from Operation | -318 | 260 | 122 | 209 |
| Cash Inflows from Investment | 0 | 0 | 59 | 82 |
| Cash Outflows from Investment | 272 | 1,130 | 5,204 | 1,350 |
| Net CF from Investment | -272 | -1,129 | -5,145 | -1,268 |
| Cash Inflows from Financing | 1,326 | 3,219 | 11,774 | 7,151 |
| Cash Outflows from Financing | 581 | 1,869 | 5,438 | 6,474 |
| Net CF from Financing | 746 | 1,350 | 6,337 | 677 |
| Net Increase in Cash and cash equivalent | 1,753 | 2,920 | 6,361 | 4,383 |

Source: The company's financial reports

Debt Servicing Capability

The liquidity of TPG was moderately weak. At end-September 2022, TPG had a cash balance of c. RMB3.18 billion (among which the restricted cash was RMB1.42 billion) and unused credit facilities of c. RMB2.86 billion, compared with its debt due within one year of c. RMB4.85 billion. TPG has access to limited financing channels, mainly includes bank loans and non-traditional financing (such as trust loan, financial lease and factoring), to support its debt repayment and business operations. At end-September 2022, the non-traditional financing accounted for a relatively high proportion (c. 50%) in TPG's financing structure.



Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.